A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on July 14, 2014, at 10:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Mark Young, Vice Chair Dale Rocheleau, Carolyn Branagan, Samantha Lucas*, Ron Lumbra***, and David Potter*

MEMBER ABSENT: Jeff Wilson

OTHER TRUSTEES PRESENT: None

REPRESENTATIVES PRESENT: Faculty Representative Barbara Arel, Staff Representative Wendy Coy, and Student Representative Elizabeth MacNeill

REPRESENTATIVES ABSENT: Tanya Morehouse of the State Auditor’s Office, Graduate Student Representative (appointment pending), and Alumni Representative (appointment pending)

PERSONS ALSO PARTICIPATING: Vice President for Legal Affairs and General Counsel Fran Bazluke, Chief Information Officer and Dean of University Libraries Mara Saule, Vice President for Research Richard Galbraith, Chief Internal Auditor Williams Harrison, Senior Advisor John Evans, Vice Provost for Student Affairs Annie Stevens**, Associate Vice President for Research Administration Jennifer Gagnon, University Controller Claire Burlingham, Information Security Officer Dean Williams, Federal Relations Director Wendy Koenig, Assistant Director of Compliance Services Erica Heffner, Assistant General Counsel Jennifer Papillo*, and Claire Esten, Paul Klein, and Larry Ladd of Grant Thornton

* Participated via teleconference call.
** Participated via teleconference call until 10:20 a.m.
*** Participated via teleconference call and departed the meeting after the second executive session agenda item.

Chair Mark Young called the meeting to order at 10:02 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the April 28, 2014, meeting minutes.
Chief Internal Auditor Update

Chief Internal Auditor William Harrison began his presentation by referring to the first of four tables in his written status report provided in advance to the Committee. The Office of Audit Services (OAS) completed sixteen reports and work products in FY 2014. This included ten EthicsPoint reports. In addition, Mr. Harrison noted four planned audits in process. The audits included Senior Management Travel Expense, Procurement Services, Rubenstein School of Environmental and Natural Resources, and Transportation Safety.

Faculty Representative Arel noted a report number error in table 1 of Mr. Harrison’s report to the Committee.

Vice Chair Rocheleau asked Mr. Harrison if he had considered adding more descriptive report titles for the EthicsPoint reports as this would be helpful when reviewing the materials. Mr. Harrison said that he would confer with the group that administers the EthicsPoint process noting that these reports often contain confidential information.

Moving on to table 2 of his report, Mr. Harrison provided an update of the status of internal audit recommendations. Referencing the Audit Recommendations definitions beginning on page 3 of his report, Mr. Harrison provided a brief summary of the classification and status reporting process. He also reviewed tables 3 and 4 which detailed all recommendations classified as essential, significant, or not rated as the recommendation was made prior to implementation of the rating system.

Responding to Staff Representative Coy’s question about recommendation follow up procedures, Mr. Harrison explained that Audit Services follows up with responsible officials according to the dates outlined in the action plans.

In response to the Senior Management and Travel Expense audit findings, Chair Young asked Information Security Officer Dean Williams about sharing passwords and the responsibilities an account holder has when they share this information. Dean Williams noted that according to University policy, account holders are responsible for the use of their account and password sharing is not permissible.

Continuing on, Mr. Harrison explained the reorganization of the audit and compliance functions effective July 1, 2014. The two primary changes include a Director of Compliance Services replacing the Chief Compliance Officer position and the creation of an Assistant Director of Audit Services position. The restructuring reflects the changes in reporting structures and job responsibilities, to better align the audit and compliance functions, and to address the FY 2015 budget reduction target.

Next, Mr. Harrison referred the Committee to two supplementary documents provided with his status report: the “2014 state of the internal audit profession study Higher Performance by design: a blueprint for change” and the Association of Governing Boards Advisory Statement on Sexual Misconduct. Referring to the internal audit profession
study, Mr. Harrison highlighted one conclusion regarding an increasing expectation gap between management and auditors on the activities of the internal audit function.

Vice Chair Rocheleau asked what actions Mr. Harrison was contemplating in response to the study. Mr. Harrison responded that as one example, his office was working closely with Chief Risk Officer Al Turgeon to align the audit and compliance workplans with the Enterprise Risk Management (ERM) plan. The audit and compliance workplans will be presented at the November 2014 Audit Committee meeting along with the ERM Risk and Opportunity Portfolio to show how the workplans are aligned with what management has identified as significant institutional risks.

Vice Chair Rocheleau also asked if Mr. Harrison had any idea whether there was an expectations gap between management and his office. Mr. Harrison explained that based on recent feedback from a number of senior leaders on campus, the audit and compliance functions were largely meeting management’s expectations.

Chair Young commented that after reading the meeting materials he was concerned more than ever with the University’s compliance responsibilities and asked Mr. Harrison if his Office had the personnel and resources to keep up with its responsibilities in compliance while the Director of Compliance Services is on leave. Mr. Harrison responded that he was currently working with the President’s Office on a way to identify additional resources during this time period. Chair Young said that if there is anything that he or the Committee can do to help, to please let him know.

Mr. Harrison then referred the Committee to the Association of Governing Boards Advisory Statement on Sexual Misconduct, which provides suggested practices for how Boards and institutional leadership create a discussion on this important topic. If they have not already done so, Mr. Harrison recommended that the Audit Committee begin a discussion with the President and senior leadership on this topic.

Referring to the questions on pages 5 and 6 of the report, Vice Chair Rocheleau expressed an interest in adding this discussion to a future Audit Committee or larger Board meeting to hear the administration’s perspective on this issue.

Vice Provost for Student Affairs Annie Stevens then offered the Committee an introduction to the University’s efforts with regard to Title IX compliance.

Staff Representative Coy asked Vice Provost Stevens who was the University administrator responsible for Title IX. Vice Provost Stevens said one of the major requirements of Title IX is that institutions must identify a Title IX Coordinator. For UVM, Jes Kraus, the Director of the Office of Affirmative Action & Equal Opportunity, is the University’s Title IX Coordinator, Vice Provost Stevens is the Deputy Coordinator for Students, and Jeffrey Schulman is the Deputy Coordinator for Athletics. The Coordinators serve on a campus-wide collaborative body that ensures compliance from several directions such as policy oversight, case monitoring, maintaining websites for how to report concerns, and delivering training to students, faculty and staff.
Trustee Braunigan inquired if the questions from the Advisory Statement should be taken to the September Board retreat to give the Trustees a start on understanding this topic. Vice President Bazluke responded that the retreat was a time for the Trustees to get together to focus on Board effectiveness issues, but that this could be presented to the Committee of the Whole at the October Board meeting. Vice President Bazluke said that the President is actively engaged on this issue and would like the opportunity to speak on this topic. It would also provide an opportunity for others on campus to attend.

Vice Chair Rocheleau recommended that the Advisory Statement be sent to the Board Chair so that she is aware of this topic and advised that the Audit Committee is asking for this to be an agenda item at the full Board meeting. Chair Young agreed noting that it appeared that this issue was the fiduciary responsibility of the Board as a whole.

In conclusion, Mr. Harrison provided the Committee with an update on the Vermont Institute for Artisan Cheese embezzlement case. Mr. Harrison noted that according to the court document, the former employee was sentenced to 13 months of imprisonment and ordered to pay $200,000 in restitution.

In response to Chair Young’s question about to whom the restitution will be made, Mr. Harrison said that the payee is the University of Vermont Department of Nutrition and Food Services, which is in the College of Agriculture and Life Sciences.

**Information Security Officer Update**

Information Security Officer (ISO) Dean Williams began his report to the Committee with an update on the University’s compliance with Payment Card Industry Data Security Standards (PCI DSS) requirements. The University has 38 merchants in 23 departments that accept payments by credit card. As of June 30, 2014, 35 merchants, representing 65% of sales by dollar volume and 37% of overall transactions, have passed their annual self-assessment questionnaires (SAQs) at least once. At this time, 46% of overall sales are being made by merchants with current SAQs. The Controller’s Office continues to remind merchants to complete or renew their SAQs. Both the Controller's Office and the Information Security Operations (ISO) Team continue to offer assistance to merchants so that they may be compliant with the PCI DSS standards.

Faculty Representative Arel commented that the transaction volume for the merchants with incomplete SAQs seems very significant and asked what was being done to get these merchants to complete their SAQs. Mr. Williams explained that between the CATCard Service Center and the UVM Bookstore there are five merchants. As the largest two departments, not having those SAQs complete accounts for these statistics. Mr. Williams said that the CATCard Service Center has passed required external scans and has reported that it is close to completion of its SAQ process. Mr. Williams noted that the CATCard Service Center is down a position right now with responsibility in this area, but the Bookstore has recently created and filled a new position. It is Mr. William’s understanding that this person’s top priority is completion of the Bookstore’s SAQ process. The ISO team continues to offer support to both departments.
Chair Young asked Mr. Williams if the CATCard Service Center’s open position was by vacancy or due to budget cuts. Mr. Williams said by vacancy.

Moving on, Mr. Williams explained the purpose of the PCI DSS requirements are to get merchants to apply and document both the procedural and technical measures they have in place to securely protect customers payment card information. The requirements break down into 12 major compliance areas, which further break down into 242 more detailed requirements, which is a lot of information for merchants to assess.

Staff Representative Coy asked how often merchants do this process. Mr. Williams said every year, but there is a range of activity that depends on the way merchants accept credit card transactions. Merchants that do not maintain cardholder data may need to address fewer questions. Those merchants that do store cardholder data such as the CATCard Service Center are subject to the full list of 242 questions. The SAQ process is lengthy and to pass all questions must be answered affirmatively.

Mr. Williams next highlighted the changing compliance landscape. The ISO team is currently reviewing the third version of the PCI DSS requirements. Most of the new requirements became effective on January 1, 2014, with some effective in July 2015. For example, to assist campus merchants in transitioning to the new requirements, the ISO team has developed an Incident Response Plan framework, which adds to a number of other existing technical activities and procedural resources available to merchants including vulnerability scanning and penetration testing, providing a risk assessment instrument and video training, and producing a detailed guide that identifies responsibilities for addressing the 242 compliance areas and questions.

Staff Representative Coy asked if the guide developed by the ISO team included the roles other departments at the University play in this process, for example, installing anti-virus protection. Mr. Williams responded that while the merchant is ultimately responsible for compliance, the ISO team works individually with merchants to answer their questions and to help them identify if there are existing resources on campus.

Mr. Williams moved on to discuss phishing attacks. He described a typical phishing attack designed to gain an individual’s credentials. He explained that phishing attacks are on the rise because they are effective noting that there was a 50% increase in the number of warnings published by Enterprise Technology Services in FY 2014. The number of accounts detected as compromised has gone down over the past 12 months because people are becoming more sophisticated and aware of this type of attack. The ISO team wants faculty and staff to be aware of phishing attacks because of the types of information a criminal could access with their credentials. The ISO continues its educational efforts including a guide about scams targeting higher education.

In conclusion, Mr. Williams offered the Committee a summary of the University’s incident response preparations. He explained that data breaches are no longer a matter of “if,” but rather “when.” After attending this year’s EDUCAUSE Information Security Professionals conference, Mr. Williams became concerned that the University may not be
able to pull all of the pieces of an incident response plan together quickly enough to handle a major breach. As a result, Mr. Williams and Director of Risk Management Mary Dewey will be meeting with the University's cyber liability insurance carrier later this summer to get a better understanding of available resources.

**Grant Thornton FY 2014 Financial Statement/A-133 Update**

Claire Esten began Grant Thornton’s presentation to the Committee by introducing Managing Director Paul Klein and Director of National Higher Education Practice Larry Ladd. Mr. Klein then offered the Committee a description of the technology review process as well as the current status. Mr. Klein reported that Grant Thornton has completed their onsite work and testing of requested documentation. They are currently working with management on a list of open issues.

Chair Young asked Mr. Klein to describe how the results of the technology review would be presented to the Audit Committee. Mr. Klein explained that the results, and any recommendations, would be shared with management then provided to the external audit team. Ms. Esten noted that typically, a high-level summary is provided to the Committee in the management control letter, which is a required communication. To the extent that the Committee would like more detailed information, working with management, that information can be made available.

Ms. Esten moved on to provide an update on the external audit. She explained that the IT work is completed early in the audit so that if there are major issues, the audit approach can be modified if necessary. The two major programs tested for the A-133 audit were the research and development and Medicaid clusters. Grant Thornton is working to resolve two items identified in their testing. In addition to the work on the A-133 audit, they have completed walkthroughs with management to gain an understanding of controls and key financial statement cycles. Ms. Esten thanked management for their help and patience during the firm’s transition this first year.

Mr. Ladd concluded Grant Thornton’s presentation by referring the Committee to page 6 of the materials at Attachment 4 that lists questions Trustees should be asking the administration. Mr. Ladd noted that at this stage in higher education, change is beginning to become more dramatic than at any time since the end of the Civil War. In this environment, it is very important that Boards ask important questions and not just receive reports. Mr. Ladd then provided a brief overview of several strategic issues affecting higher education such as demographic changes and online courses.

Vice Chair Rocheleau noted the University’s transition to Incentive-based Budgeting (IBB) and asked Mr. Ladd for his observations on how this budgeting approach was working at other colleges and universities. Mr. Ladd responded that the success of IBB depends on whether you go into IBB knowing what you are going to get out of it and understanding any negative impact of this approach. One of the biggest advantages of IBB is deans having more responsibility for decisions making and moving decisions closer to the market place. This frees up the President and Provost to think more about
strategy and less on implementation of strategy. A disadvantage of IBB is that you need a robust accounting system to allocate revenues and costs among the different cost centers, which takes time to establish, set-up and maintain.

Vice Chair Rocheleau noted the changes in culture brought about by the Sarbanes Oxley Act. He commented on the culture of accountability and compliance and the need for Boards to focus on strategy and mission through a risk assessment process so that big risks and opportunities are brought to the Board’s attention.

Chair Young commented on the influence of technology, over time, on the physical infrastructure of the banking industry and the potential impact of technological changes such as online education and enrollment on colleges and universities.

Staff Representative Coy pointed out that the University will need to convince the declining number of high school graduates that the price of higher education is worth the investment. Students are very focused on career outcomes. The cost of higher education is forcing high school students to rethink how they continue their education and prepare for careers.

**Presentation of Resources for Research Compliance**

Senior Advisor John Evans, along with Vice President for Research Richard Galbraith, and Associate Vice President for Research Administration Jennifer Gagnon provided a presentation on the Enterprise Risk Management Register and Portfolio risk item resources to meet increased and complex compliance requirements for sponsored project and research. Mr. Evans began with an overview of the units who have responsibility for compliance within the Office of the Vice President for Research.

Moving on, Mr. Evans explained that a sponsored project is an externally sponsored research project or scholarly activity with a defined scope of work and set of objectives. The University participates in externally sponsored research to create a brand of academic excellence and to attract the best faculty and students. It also leads to scientific advances and innovation.

Next, Mr. Evans offered the Committee an overview of a sponsored projects lifecycle, which consists of proposal preparation and submission, award acceptance and setup, and award management and closeout. Each year the University submits 1200 proposals, accepts 700 new and continuing awards, and manages 1400 active awards.

Continuing on, Mr. Evans explained regulated research activities that involve human subjects, vertebrate animals, and biohazardous materials, whether sponsored internally or externally. Mr. Evans then described reputational, financial, legal, and external audit risks posed to the University from sponsored research. He further explained compliance requirements and his Office’s recent initiatives to mitigate risk. He provided examples of noncompliance in higher education to demonstrate the serious consequences of
noncompliance citing questioned costs and the sentencing of a retired University of Tennessee professor found guilty of export control violations.

At Trustee Branagan’s request, Ms. Gagnon defined export controls as a set of federal requirements when dealing with materials and information that are governed under the Department of Defense. As an example, the University may have a faculty member who is working with a company that has information that cannot be shared with non-U.S. persons and what are the controls the University has in place to prevent the sharing of this information. She noted export control is a fairly complicated set of regulations.

Trustee Branagan referenced the University of Tennessee professor who was found guilty of export control violations and asked about the circumstances that led to this sentence. Ms. Gagnon explained that the professor had traveled to China with his computer which contained restricted data. Now that it is common to travel with a computer, Mr. Evans articulated the need to educate faculty about the types of information stored on their computers.

Trustee Branagan asked Mr. Evans to broaden the part of their presentation describing the Audit Committee being a risk and is there something the Audit Committee should be doing to reduce this risk. Ms. Gagnon explained that audit risk is about the negative repercussions of having external audit findings. UVM is considered a low-risk auditee. If that were to change, UVM may be subject to additional audits and scrutiny.

Ms. Gagnon clarified for Vice Chair Rocheleau that UVM’s external auditors classify the University as a low-risk auditee. Sponsors may also choose to perform external reviews, which are public and can be reviewed by others. In addition, some State of Vermont agencies have a separate risk designation when they contract with UVM.

In conclusion, Mr. Evans shared his concerns about understaffing of the research enterprise. He reminded the Committee of this type of problem in the past, which was the result of understaffing of the grants function. At that time, the problems were quickly identified and fixed with the assistance of external consultants. Seven new staff were hired and the function has been doing well since that time. These types of administrative functions, which manage a tremendous amount of risk on a day-to-day basis, combined with the complexity and number of new regulations, continue to see increasing workloads. He recommended that the Board take a look at staffing in research and other areas on campus where finances are being managed. Mr. Galbraith added that resources for the research enterprise is the University’s highest ranked opportunity in the ERM portfolio. This includes resourcing the infrastructure to make sure research is done safely, legally and in compliance with the increasing number of regulations.

Chair Young asked if grants are more likely to be awarded to the University because of its low-risk status. Mr. Evans explained that a peer review process on the scientific merit of the proposal is used to determine a grant recipient. UVM’s management reputation is not considered in this process. Ms. Gagnon added that what we have to do to administer an award may increase if the University is not classified as a low-risk institution.
Vice Chair Rocheleau asked why the plan status on the ERM management plan had a status of “needs attention” after all the work the Office of the Vice President has done. Mr. Evans responded that he chose this status because he feels there is so much regulatory change activity that the University will always need to stay on top of this item. The Office is on track and has handled everything that has come their way. Vice Chair Rocheleau commented that the “needs attention” status indicates to him that there is a gap between the plan and what is being done. Mr. Evans reiterated his concerns related to increasing regulations, workload, and the lack of resources for monitoring.

Chair Young asked if research makes money for the University. A discussion followed regarding the impediments to research being profitable and its beneficial attributes to the University’s brand, reputation, and ability to attract students.

Vice Chair Rocheleau commented that a research program is a way to mitigate the digital education risk because it cannot replace this hands-on experience.

Vice Chair Rocheleau observed that other institutions had funds available for strategic research initiatives and inquired if the University had similar funds. Mr. Evans confirmed that the Vice President for Research has a modest strategic investment fund. Dean’s also receive an allocation of their successful research enterprises that can be used in the same way. In the proposed IBB model, the strategic investment fund for the Office of the Vice President for Research will go up substantially. This will allow for strategic investments in areas where the University has a high probability for success as well as research in new areas. Mr. Galbraith added that funds received through the UVM Foundation could also provide strategic research opportunities.

**Other Business**

At 12:09 p.m., a motion was made, seconded and approved to go into executive session for the purpose of discussing civil actions, security procedures and similar information the disclosure of which would threaten the safety of persons or the security of public property, and to receive the advice of Counsel premature general public knowledge of which would clearly place the University at a substantial disadvantage. All in attendance were excused from the meeting, with the exception of Trustees, Vice President and General Counsel Francine Bazluke, Chief Internal Auditor William Harrison, Federal Relations Director Wendy Koenig, Assistant Director of Compliance Services Erica Heffner, and Assistant General Counsel Jennifer Papillo. For the second agenda item, Federal Relations Director Wendy Koenig, and Assistant General Counsel Jennifer Papillo were excused and Chief Information Officer and Dean of University Libraries Mara Saule, Information Security Officer Dean Williams, Associate Chief Information Officer Julia Russell, and Claire Esten of Grant Thornton joined the meeting. For the final agenda item, Chief Information Officer and Dean of University Libraries Mara Saule, Information Security Officer Dean Williams, Associate Chief Information Officer Julia Russell, and Claire Esten of Grant Thornton were excused.
Adjournment

The meeting was re-opened to the public at 12:50 p.m.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Mark Young, Chair